

Memorandum

To: Panel Members Date: May 23, 2002

From: Ron Tagami, Manager
Peter DeMauro, General Counsel Analyst: N. Weingart

Subject: One-Step Agreement for **Sears Logistics Services, Inc.**
(no website)

CONTRACTOR:

- Training Project Profile: Retraining: companies w/out-of-state competition & Training in High Unemployment Areas of California
- Legislative Priorities: Moving to a High Performance Workplace
- Type of Industry: Services
- Repeat Contractor: No
- Contractor's Full Time Employees:
 - Company Wide: 90,000
 - In California: 9,697
- Fringe Benefits: Yes
- Union Representation: No
- Name and Local Number of Union representing workers to be Trained: N/A

CONTRACT:

- Program Costs: \$592,800
- Substantial Contribution: \$0
- Total ETP Funding: \$592,800
- In-Kind Contribution: \$820,178
- Reimbursement Method: Fixed-Fee
- County(ies) Served: Los Angeles
- Duration of Agreement: 24 months

SUBCONTRACTORS:

Training Funding Partners, Irvine, California (\$29,640 for project administration)

THIRD PARTY SERVICES:

Training Funding Partners helped develop the Contractor's training program and completed the application for ETP funds. Amount reimbursed for services is \$18,000, which the applicant states is based on a flat rate.

PRIOR PROJECTS:

The following are completed project statistics for ETP Agreements with Sears Logistics Services, Inc. within the last five years:

Agreement No.	Location (City)	Term	Agreement Amount	Amount Earned	% Earned
ET9-0868	Delano	10/16/98-10/15/2000	\$165,139	\$137,436	83%

ACTIVE PROJECTS:

The following are current project statistics with Sears Logistics Services, Inc.:

Agreement No.	Term	Agreement Amount	Number To be Retained	Number Enrolled	Number Completed Training	Number retained for 90 days
ET01-0196	12/31/2000-12/30/2002	\$313,014	424	339	193	193

This project is in Delano. Statistics are taken from the last monitoring visit conducted on 2/22/02 and the Contract Status Report on 5/14/02. Contractor anticipates completing retention for the total number to be retained.

NARRATIVE:

Sears Logistics Services, Inc. Los Angeles facility provides internal distribution and warehousing functions on behalf of Sears' retail locations throughout the Western United States. The Contractor is eligible to provide ETP training under Title 22, California Code of Regulations, Section 4416 (d)(1) as a facility that provides significant support services to the company's offices, operations, divisions, branches, stores, or franchises located outside of California and meets ETP's funding priorities of moving to a high performance workplace, Unemployment Insurance Code, Section 10200 (b).

Sears, Roebuck and Company (Sears) originated from an enterprise established in 1886 and was incorporated under the laws of New York in 1906. Its principal offices are located in Hoffman Estates, Illinois, with full-line and specialty retail stores located throughout the United States and Canada. Sears

NARRATIVE: (continued)

(and its consolidated subsidiaries) is one of the largest retailers of merchandise and services in the world. Achieving revenues in excess of \$40 billion in 2000, the company employs over 90,000 full-time workers worldwide including 9,697 full-time workers in California.

Sears Logistics Group (SLG) is the single point of contact for all logistical activities in the Sears Supply Chain, including movement of goods from over 4,500 vendors to more than 200 store locations and over four million home deliveries. SLG also supports on-line sales. Merchandise includes apparel, appliances, electronics, home furnishings, hardware, tires, and repair parts. SLG employs approximately 13,500 Associates in over 200 field units consisting of: 5 Fashion Merchandise Distribution Centers, 7 Retail Replenishment Centers, 7 District Delivery Centers, 13 District Customer Service Offices, over 100 Market Delivery Operations, 3 Central Return Centers, 4 Tire Distribution Centers, 5 Parts Distribution Centers, 33 Retail Outlet Stores, and a host of other specialty warehouse centers.

SLG is comprised of: Sears Logistics Services, Inc., Sears International Marketing, Inc., Sears Outlet Stores, Vendor Relations, and Strategic Sourcing. Sears Logistics Services, Inc. (SLS) (now a wholly owned subsidiary of Sears, Roebuck and Co.) began in April 1939 as Terminal Freight Forwarding Company and took its current name in 1993. Within SLS, there are 5 Fashion Merchandise Distribution Centers located in Los Angeles, California; Columbus, Ohio; Wilmington, Delaware; Atlanta, Georgia; and Garland, Texas. Known as the fashion distribution channel, these 5 facilities make up the largest distributor of "Garments on Hangers" (GOH) (including cartons) in the retail industry. At these sites, workers receive, sort and ship merchandise from the manufacturer to the Sears stores in approximately 10 days.

The Sears Logistics Services, Inc. Los Angeles Center, (SLS-LA) the subject of this training proposal, is primarily a Fashion Merchandise Distribution Center (FMDC). However, it has also recently become a Multi-Purpose Logistical Center (MPLC) processing both soft lines (clothing and apparel) and hard lines (tools, small furniture and appliances). This business is extremely competitive and even small differences in the cost of processing merchandise can translate into thousands of dollars of additional costs or benefits. The Center's primary goal is to promptly and efficiently deliver quality merchandise to satisfy customers' timeliness and cost requirements. To this end, new technology and systems are being installed and implemented within the Center to convert manual into computer-automated operations and to provide workers with new skill sets to create a high performance workplace. With the use of new technology and skills, workers will be able to handle more merchandise in less time and with less manual effort. Not only will customer service be enhanced, but also the job skills for the 314 California employees at this site.

Classroom and Structured, On-Site Training will be provided to Associates (frontline workers), Coordinators, Leads, Facilitators, and Managers (management staff) in the following areas:

Computer Automated Distribution System (ADS)

A major, new, \$5 million computer automated sorting and handling slick rail system was installed in part of the facility, replacing the outdated manual trolley system to properly sort product for distribution. Over the next 2 years, the entire facility will be converted and employees must learn the computer applications and the functionality of the system.

NARRATIVE: (continued)

Activity Information Module (AIM) System

The company recently upgraded its Activity Information Module (AIM) computer system that monitors workers' time and production efforts. Previously, employees kept paper activity records and entered data into AIM, which then generated reports for management purposes. Upgrades call for a slide card check-in system that will eliminate the need to track progress on paper and enter the data manually. Workers will now be required to track their own performance and proactively make changes to their daily activities for better results.

Yard Management System (YMS)

The Yard Management System (YMS) is a computer system that tracks trailer locations and content status for purposes of coordinating merchandise loading and unloading activities. This system has been under development for the past two years and is now being fully implemented. Employees involved in shipping and receiving and support activities must learn to use the system.

Sears Advantage Merchandise System (SAMS)

SLS-LA must track merchandise from its source through the various shipping channels to ultimate delivery to its final destination. Over the years, the tracking process was handled manually using only a hard copy paper trail. Today, the SAMS computer technology provides information on the status and location of incoming and outgoing merchandise. The company has made major upgrades to the system and employees must now be trained to use the software and the new procedures associated with its use.

Shared Network and Intranet System

Until recently, computer hardware and software were only provided to a limited number of management personnel. Today, however, all frontline workers have access to computers and must learn not only the Shared Network and Intranet System, but also the basic computer applications to become more efficient in their jobs.

Cross-Training (Pay-for-Knowledge) Program

This cross-training initiative allows workers who typically work in one production area to learn all areas of the operation. Operations become more efficient through the ability to shift cross-trained workers from slower areas to those that may be extremely busy. In addition, trainees who successfully complete the program receive a pay increase of approximately 8 percent and have greater opportunities for promotion and advancement.

Succession Planning Program

The Succession Planning initiative provides trainees with a variety of skills that encourage and empower them to get more involved with everyday management of the business. The curriculum provides a "big picture" understanding of the entire operation as well as a detailed understanding of teamwork, goal setting, cost analysis, time management and vocabulary necessary to track inputs and outflows, and better understand, control and report results. Not only does this training allow workers to become more proactive, but enhances their promotability and longevity within the company.

NARRATIVE: (continued)

Quality Check Program

The Daily Associate Quality Check program (DAQC) is a new management initiative that requires Managers, Facilitators, and Leads to perform daily quality checks of processes and procedures throughout the facility. When problems surface, the results are used to identify workers' skills gaps and prescribe additional training and/or coaching as needed. Management staff must be trained to properly and effectively use this new tool.

Sears personnel, together with Training Funding Partners staff, will administer the Agreement.

Supplemental Nature of Training

Sears' current training has included New Employee Orientation, Safety, and Communication Skills comprised of Basic Math, English as a Second Language, and Sears Language. Training has been given by both internal and external trainers. Rio Hondo College, which provided Communication Skills classroom-based training, also provided an introduction to Microsoft Windows to approximately 80 people. Informal cross-training has been provided at the company since 1996 using an on-the-job "buddy system" approach for employees to learn more than one work area. Workers have also been given some basic operating skills to utilize the new automated systems hardware and software; and the Succession Planning program was recently completed as a pilot for approximately 20 trainees. In general, any instruction in the new, internal systems and programs up to this point in time has typically utilized an informal, on-the-job approach and/or has been provided in limited amounts to a limited audience.

Sears will now deliver training on its new systems and programs to almost the entire workforce during the term of the ETP contract. A large portion of the material will be provided through class/lab instruction given by subject matter experts, which will allow trainees to develop an in-depth understanding of their job skills and the operation as a whole. Without ETP funding, the company's comprehensive training plan would not be as extensive, as effective or as timely due to budget constraints.

During and after the ETP training, SLS-LA will continue to provide ongoing training at its own expense in Basic New Employee Orientation and Safety and Communication Skills. At the conclusion of the ETP program, Sears will incorporate the curriculum into its ongoing training plan for new employees. The company's estimated training budget for 2004 and 2005 will be approximately \$1.3 million.

In-Kind Contribution

The Contractor will provide an in-kind contribution of \$820,178 in trainee wages and fringe benefits during training.

COMMENTS:

ETP has previously contracted with Sears, Roebuck & Co. and Sears Logistics Services. However, this proposal will be the first Agreement for this facility in Los Angeles.

Per the Contractor's signed certification letter, no staff that sets company policy has been included in this Agreement.

COMMENTS (continued):

High Unemployment Area

Unemployment Insurance Code, Section 10214.5(c) states in part: "The Panel may waive the minimum wage provisions pursuant to subdivision (f) of Section 10201 for projects in regions of that state where the unemployment rate is significantly higher than the state average."

Sears Logistic Services, Inc. is located in Los Angeles, which is a high unemployment area. The Contractor is requesting a wage waiver for 128 Associate, Lead and Coordinator trainees in Job 4 who lack the essential job skills necessary to improve their employment opportunities. They have entry-level job responsibilities and perform limited job duties. The pay scale for these jobs is low because of the limited amount of skills required and limited time on-the-job. With ETP-funded training, the workers will receive enough training to make them more valued employees who can perform a variety of job duties.

The Contractor is requesting a waiver to the ETP minimum wage of \$11.78 per hour for Los Angeles County. The lowest wage earned by trainees during training will be \$7.75 per hour before the inclusion of health benefits. The Contractor has agreed to increase the wages of these trainees by at least five percent immediately following the 90-day retention period which is not a cost of living increase.

PROPOSED ACTION:

Staff recommends that the Panel approve the One-Step Agreement and the requested wage waiver, if funding is available and the project meets the Panel priorities. This recommendation is based on Sears Logistics' stated need to provide its employees with skills to become a high performance workplace to enhance the company's ability to remain competitive, to grow, and to satisfy customer needs. The implementation of this proposed training will enable the company to remain viable in the California economy.

TRAINING PLAN:

Grp/Trainee Type	Types of Training	No. Retain	No. Class/Lab Videocnf. Hrs	No. CBT Hrs	No. SOST Hrs.	Cost per Trainee	Hourly Wage after 90 days
Retrainee Jobs 1-4	Continuous Improvement, Commercial Skills & Computer Skills	300	80-200	0	120	\$1,040 - \$2,600	\$8.14-\$26.44
						<u>Range of Hourly Wages</u> \$8.14-\$26.44	
						<u>Prevalent Hourly Wage</u> \$13.00	
						<u>Average Cost per Trainee</u> \$1,976	
<u>Health Benefit used to meet ETP minimum wage:</u> Health and dental benefits of \$1.52 per hour will be applied to the base wage of trainees in Job #s 1, 2 and 3 in order to meet the ETP minimum hourly wage of \$11.78 per hour for Los Angeles County.					<u>Turnover Rate</u> 14%	<u>% of Mgrs & Supervisors to be trained:</u> N/A	

Sears Logistics Services, Inc.
ETP Menu Curriculum

<u>Class/Lab</u>	<u>Hours</u>	<u>SOST Trainer</u>
80-200		804-1,536

Trainees will receive any of the following:

Continuous Improvement Skills

Succession Planning Program

- Process Mapping
- Goal Setting
- Unit Per Hour Analysis
- Cost Per Unit Analysis
- Team Building
- Time Management
- The “Big Picture” Plan

Quality Check Program

- Quality Check Criteria by Function
- Check Procedures
- Identifying Skill Gaps
- Determination of Prescription

Commercial (Distribution Center) Skills

Cross-Training Pay for Knowledge Program

- Receiving Processes including GOH detailing, scanning, ticketing, OTH (open to hangers), staging, stock pulling, trouble shooting, unloading
- Distribution Processes including sorting, line pushing, input platform operation, bill matching, pre-induction station, trolley recycling, trouble shooting
- Shipping Processes including merchandise staging, store location, carton sorting, special handling, packing, load scanning, shuttle operation, return goods invoicing, inter-unit transfer
- Flow-through Processes including clamp operation, detailing and labeling, scanning and staging, loading and unloading

Activity Information Module System (AIM)

- Computer Functionality Upgrade
- New Processes and Procedures

Commercial (Distribution Center) Skills (continued):

Automated Distribution System (ADS)

- Computer System
- Processing, Programming, Procedures

Yard Management System (YMS)

- Computer Tracking System
- Processes and Procedures

Sears Advantage Merchandise System (SAMS)

- Computer Tracking System
- Processes and Procedures

SOST Trainer Activity Plan

- Observe trainees programming the Automated Distribution System (ADS) for proper sorting of merchandise to designated areas.
- Review and discuss with trainees succession planning concepts learned in class.
- Interview trainees during performance evaluations on skills learned and offer feedback and action plans for enhancing trainees' understanding.

Competency: Trainees will be able to effectively and efficiently use the new systems, processes and procedures and/or apply newly learned concepts and skills on the job.

Computer Skills

Intranet System

Network System

Prerequisite Microsoft Office

- Access
- PowerPoint
- Word
- Excel

SOST Trainer Activity Plan

- Assign trainees work related data access and/or data distribution tasks using the shared network and/or intranet.
- Review documents prepared by trainees using the software applications and provide feedback.

Competency: Trainees will be able to access and distribute data as well as create documents using the new programs and systems.